FLORIDA PRIME
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Weekly Commentary

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So many moving parts

Little wonder the Federal Reserve held rates steady last week in the target range of 4.25-4.50%. While the Federal Open Market Committee (FOMC) is not political, it understands that the economic impact of a trade war and of a billowing Middle East conflict could push inflation higher. In the short term, rising oil prices could cause core readings of inflation to rise, but there is also risk that the broader effects of the above could make inflation sticky.

The FOMC statement continued to emphasize ongoing uncertainty to justify its "wait-and-see" approach. In the updated Statement of Economic Projections (SEP), participants lowered their growth forecasts but raised the unemployment and Core PCE levels they expect to see. The fed funds rate remained at 3.9%, indicating officials anticipate delivering two cuts this year—though seven of the participants showed zero cuts in their projections.

But Chair Powell downplayed the significance of the dot plot. "I think what you see people doing is looking ahead at a time of very high uncertainty and writing down what they think the most likely case is. No one holds these rate paths with a great deal of conviction...and you can make a case for any of the rate paths that you see in the SEP."

One could ask why policymakers bother to produce the SEP if they don't have "conviction." In any case, it seems we won't see a rate cut until September.

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